

# **EMNAMBITHI /LADYSMITH MUNICIPALITY**



**2013/2014Medium -Term Budget**

**PART 2 – Budget Commentary**

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**1. Mayoral Budget Speech**

It is an honour to stand before you to present to this house, the Council meeting of the Emnambithi/Ladysmith Municipality, the Medium term Expenditure Framework for the 2013 / 2014 financial year.

As His Majesty King Zwelithini Goodwill Kabhekuzulu said at the third KwaZulu-Natal Legislature: "This province needs peace and reconciliation. KwaZulu-Natal has far too long been associated with violence. It is the responsibility of all our people, not only the leadership of this province to shed this negative image."

The building of a non-racial, non-sexist, democratic and prosperous South Africa is central to the commitment we have always made to our people. This is a commitment whose roots lie in the Freedom Charter and the Reconstruction and Development Programme.

Madam Speaker, the operating expenditure budget of R555 million relating to the medium term Revenue – Expenditure framework presented today is based on the mandate of our people given to us in this term. It allocates resources to the priorities that we believe will unite us to extend basic services to more of our people and to those that were previously disadvantaged. This budget will enable us to extend quality services to all residents and create a business- friendly environment which will attract future investments.

Our current economic recession has impacting negatively on the some South African firms that are unable to compete in our global markets. We must fight poverty, create more job opportunities, redress service delivery to the previously disadvantaged and increase service delivery to our communities.

Honorable Speaker we are proud to announce that over 79% of our operational budget is funded from our own contributions.

The Equitable Share and other various grants amount to R173 million for the next year.

The total operating expenditure has increased by 1 % against the 2012/2013 adjustment budget.

The capital expenditure will decrease from R112.8 million to R94.5 million which is a 16.2% decrease against the 2012/2013 adjustment budget.

## **PART 2 – Budget Commentary**

---

### **Tariffs**

Owing to the 8% increase in the Eskom bulk tariff and the latest NERSA determinations, the electricity tariff increase for consumers will be 10%. There is currently a re-structuring in the electricity tariffs.

Refuse will be increased by 7.5%.

The new General Valuation Roll will be implemented from 01 July 2013.

Honorable Speaker we must provide service delivery to all our people, to service all our ratepayers equally and to do good business so that the residents can enjoy a good quality of life and our town can develop and grow. The indigent support packages have been revised to cater for new needs and challenges. Therefore an amount has been set aside for the provision of services to the approved indigent households.

This social package assists household that cannot pay services and are registered as indigent in terms of the Indigent policy.

### **Capital Budget**

A large portion of the capital budget is being spent in critical areas such as rural roads, community facilities in areas where they are sorely lacking, sport fields for the younger generation, electrification of new areas, much needed upgrade of electrical supply and purchase of plant and equipment to enhance improved service delivery.

The 2013/2014 budget will focus on the following areas:

|                                                         |               |
|---------------------------------------------------------|---------------|
| ● Sports Field Roosboom                                 | R 3m          |
| ● Colenso Electricity Strengthening                     | R 7 m         |
| ● Swimming pool St. Chads                               | R3 m          |
| ● Sports Field Matiwane                                 | R3 m          |
| ● Mini Facility Drogval                                 | R750 thousand |
| ● Streetlights                                          | R1.5m         |
| ● Upgrading of Sports fields                            | R1.5m         |
| ● Community Hall ward 19                                | R 4m          |
| ● Mini Multipurpose Facility Mgazini                    | R750 thousand |
| ● Bulk Infrastructure Mgazini                           | R1 m          |
| ● Tarred Roads Area J                                   | R5 m          |
| ● Community Hall Area J                                 | R5 m          |
| ● Thembalihle Bulk Infrastructure Housing               | R1 m          |
| ● CBD Regeneration projects Planning and Implementation | R2 m          |
| ● Steadville Area H Intersection                        | R2.5m         |
| ● Electrification of 1010 sites                         | R10 m         |

**PART 2 – Budget Commentary**

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|                                       |               |
|---------------------------------------|---------------|
| ● Ezakheni 642 schedule 6 electricity | R3.2 m        |
| ● Corporate Services                  | R950 thousand |
| ● Public Safety                       | R3.5m         |
| ● Engineering                         | R1m           |
| ● Municipal Manager                   | R5m           |
| ● Plant and Equipment                 | R10 m         |

The projects that could not be completed in the 2012/13 year will be rolled / carried over to the following year and that year's allocation will be utilised.

**CARRY OVER PROJECTS FROM 2012/13:**

|                                        |               |
|----------------------------------------|---------------|
| ● Bridge Ezakheni E to C               | R7.6m         |
| ● Streetlights Mcitscheni and Zwelisha | R500 thousand |
| ● Streetlights Roosboom Phase 1 and 11 | R500 thousand |
| ● Streetlights Watersmeet              | R500 thousand |
| ● Streetlights Mthandi                 | R500 thousand |
| ● Swimming pool Colenso                | R1 m          |
| ● Overhead bridge Lyell Street (CBD)   | R4m           |
| ● Extension Lister Clarence Building   | R1m           |
| ● Ezakheni Emergency Centre            | R500 thousand |
| ● Parks Steadville / E Section         | R1 m          |
| ● Constituency Offices                 | R950 thousand |

The allocations to our capital budget are drawn from the priorities that were identified during the IDP community consultation meetings. A total of R94.5million has been allocated to the capital programme for the 2013/2014 budget.

Honourable Speaker, as South Africans we have an enormous task for improved service delivery, I think we are fulfilling this mandate. We have been elected to serve our people.

In closing, I believe that the budget presented will be able to enhance the quality of service delivery throughout the municipal area.

**2. Budget Related Resolutions**

- 2.1. Council resolves that the annual budget of the municipality for the financial year 2013/14; and indicative for the two projected outer years 2014/15 and 2015/2016 be approved as set-out in the following schedules:

**PART 2 – Budget Commentary**

2.1.1. Table A1 Budget Summary.

2.1.2. Table A2 Budgeted Financial Performance (revenue and expenditure by standard classification).

2.1.3. Table A3 Budgeted Financial Performance (revenue and expenditure by Municipal vote).

2.1.4. Table A4 Budgeted Financial Performance (revenue and expenditure).

2.1.5. Table A5 Budgeted Capital expenditure vote, standard classification and funding.

2.1.6. Table A6 Budgeted Financial Position.

2.1.7. Table A7 Budgeted Cash flows.

2.1.8. Table A 8 Cash backed reserves/ accumulated surplus reconciliation.

2.1.9. Table A9 Asset Management.

2.1.10. Table A 10 Basic service delivery measurement.

2.2 Council resolves that property rates reflected below and any other municipal tax reflected in the **Annexure 2 'Tariff Policy'** and **Annexure 5'Municipal Property Rates Policy'** are imposed for the budget year 2013/14.

| Category                         | Tariff    | Exemption | Phasing in | Impermissible per property R | Rebate |
|----------------------------------|-----------|-----------|------------|------------------------------|--------|
| Residential                      | 0.010204  | No        | No         | 15 000                       | No     |
| Industrial and Business          | 0.0182721 | No        | No         | 15 000                       | No     |
| Agricultural                     | 0.0025312 | No        | No         | 15 000                       | No     |
| Public service Infrastructure    | 0         | Yes       | No         | 0                            | No     |
| Vacant Land                      | 0.0423185 | No        | No         | 0                            | No     |
| Rural Communal                   | 0         | Yes       | No         | 15 000                       | No     |
| Game Hunting and /or Eco Tourism | 0.0076239 | No        | No         | 15 000                       | No     |
| Municipal Domestic               | 0         | Yes       | No         | 15 000                       | No     |

Emnambithi/Ladysmith Municipality's  
2013/2014 Medium Term Budget

**PART 2 – Budget Commentary**

|                                                                          |           |     |    |        |    |
|--------------------------------------------------------------------------|-----------|-----|----|--------|----|
| State                                                                    | 0.0188258 | No  | No | 15 000 | No |
| Land Reform Beneficiaries who have has title to the property </>10 years | 0         | Yes | No | 15 000 | No |
| Public Benefit Organisations                                             | 0         | Yes | No | 15 000 | No |
| Religious                                                                | 0         | Yes | No | 15 000 | No |
| Industrial Estate with an estate and serviced by Agent                   | 0.0105789 | No  | No | 15 000 | No |
| Industrial Estate with an estate and serviced by owner via Agent         | 0.0105789 | No  | No | 15 000 | No |
| Ingonyama Trust Board                                                    | 0         | Yes | No | 15 000 | No |
| Public Open Space                                                        | 0         | Yes | No | 15 000 | No |
| Municipal Vacant Land                                                    | 0         | Yes | No | 15 000 | No |

2.3 All newly rateable properties are subjected to the phasing in terms of Section 21 of the Local Government: Municipal Property Rates Act of 2004

2.4 That the refuse tariffs be increased by 7.5% with effect from 1 July 2013 in terms of chapter 4 of the Municipal Finance Management Act No 56 of 2003. The detailed tariffs are detailed in the Tariff policy Annexure 2

2.5. That should it be necessary, a Municipal adjustments budget be prepared in accordance with Section 28 of the Municipal Finance Management Act No 56 of 2003.

**PART 2 – Budget Commentary**

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- 2.6 That funds from electricity surplus be applied to fund other municipal expenditure.
- 2.7 That interest at the rate of prime plus 2.5% per annum is levied on all overdue municipal accounts.
- 2.8 Council resolves that tariffs and charges reflected in **Annexure 2 'Tariff Policy'** are approved for the budget year 2013/14.
- 2.9 Council resolves that the measurable performance objectives for revenue from each source and for each vote reflected in **Supporting Table SA7** are approved for the budget year 2013/2014.
- 2.10 Council resolves to adopt the amended Integrated Development Plan **subject to amendments resulting from the consultation and IDP assessment.**
- 2.11 Council resolves that the amended policy for Credit Control, Debt Collection and Indigent Policy, the Municipal Property Rates Policy, the Tariff Policy, the Petty Cash Policy, the Supply Chain Management Policy, the Cash Management Policy and the Inventory Management Policy is adopted for the budget year 2013/2014.
- 2.12 Council notes the draft SDBIP will be tabled to Council in May/June 2013 for approval by the Mayor.
- 2.13 Pensioners 60 years of age or older and with a gross household income of R8 500 and less will receive a discount of 20% on their rates assessment. This rebate must be applied for during the 2013/2014 financial year.
- 2.14 Medically Boarded persons with a gross household income of R8 500 and less will receive a discount of 10% on their rates assessment. This rebate must be applied for during the 2013/2014 financial year.
- 2.15 Disabled persons with a gross household income of R8 500 and less will receive a discount of 20% on their rates assessment. This rebate must be applied for during the 2013/2014 financial year.
- 2.16 Child headed households with a gross household income of R8 500 and less will receive a discount of one hundred (100%) on their rates assessment. This reduction must be applied for in the 2013/2014 financial year.
- 2.17 Consumers excluding state and PSI be granted a 5% discount should the total rates bill be paid in full in advance by the last working day in August for the 2013/2014 budget year.
- 2.18 The threshold for the automatic indigency be set at the valuation of any property valued at a maximum of R130 000 or less.

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**PART 2 – Budget Commentary**

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- 2.18. The electricity tariffs are increased by 10%, subject to approval by NERSA. The tariff are further subjected to the restructuring in line with the economical generation of income. The tariffs are detailed in the Tariff policy Annexure 2.
- 2.19. The budget is submitted to the relevant treasuries subject to the changes suggested by Council.
- 2.20. The capital programme funded from revenue be funded from the uncommitted surpluses.
- 2.21. Implementation of the capital programme is subject to the availability of funds.

### **3 Executive Summary**

This is the third budget of the Council elected in April 2011. It is a continuation of the process of continuous improvement in budgeting and moves towards a longer-term financial planning outlook and Medium Term Income and Expenditure Framework through the consideration of a 3-year budget.

Where appropriate, funds were transferred from low- to high-priority programmes so as to maintain sound financial stewardship. A critical review was also undertaken of expenditures on noncore and 'nice to have' items.

#### **Consultative Process**

The 2013/2014 Draft Budget will be taken to the public for comments. A community consultation process will be undertaken primarily through public meetings throughout the Municipal area.

Comments from the Public Consultation Meetings will be analysed and taken into consideration prior to the final budget being considered by the Municipal Council.

#### **Alignment with government priorities**

In order to ensure integrated and focused service delivery between all spheres of government it is important for the Municipality to align its budget priorities with that of National and Provincial government. Both National and Provincial government place a high priority on infrastructure development, economic development, efficient service delivery and poverty alleviation.

#### **Challenges**

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**PART 2 – Budget Commentary**

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The main challenges experienced during the compilation of the 2013/14 MTREF can be summarised as follows:

- The ongoing difficulties in the national and local economy;
- Aging and poorly maintained roads and electricity infrastructure;
- The need to reprioritise projects and expenditure within the existing resource envelope given the cash flow realities and declining cash position of the municipality;
- The increased cost of bulk electricity (due to tariff increases from Eskom), which is placing upward pressure on service tariffs to residents. Continuous high tariff increases are not sustainable - as there will be point where services will no-longer be affordable;
- Wage increases for municipal staff that continue to exceed consumer inflation, as well as the need to fill critical vacancies;
- Affordability of capital projects – original allocations had to be reduced and the operational expenditure associated with prior year's capital investments needed to be factored into the budget as part of the 2013/14 MTREF process.

The following budget principles and guidelines directly informed the compilation of the 2013/14 MTREF:

- The 2012/13 Adjustments Budget priorities and targets, as well as the base line allocations contained in that Adjustments Budget were adopted as the upper limits for the new baselines for the 2012/13 annual budget;
- Intermediate service level standards were used to inform the measurable objectives, targets and backlog eradication goals;
- Tariff and property rate increases should be affordable and should generally not exceed inflation as measured by the CPI, except where there are price increases in the inputs of services that are beyond the control of the municipality, for instance the cost of bulk electricity. In addition, tariffs need to remain or move towards being cost reflective, and should take into account the need to address infrastructure backlogs;
- There will be no budget allocated to national and provincial funded projects unless the necessary grants to the municipality are reflected in the national and provincial budget and have been gazetted as required by the annual Division of Revenue Act;

**Past & current performance, achievements, major policy initiatives and challenges**

Emnambithi/Ladysmith Municipality has made good progress in a number of areas since the incorporation process in 2000. In these recent years of developmental and

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**PART 2 – Budget Commentary**

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democratic government, a high focus has been necessary on financial sustainability. This required careful management of spending and monitoring service delivery in terms of affordability.

Despite tight financial constraints service delivery has been on-going with the provision of new roads, extending the electricity network into desperately needed areas, maintenance and renewal of the current road and electricity networks, providing housing in conjunction with Provincial Government, collecting and managing refuse and the construction of foot bridges and low water crossings.

In 2010 and 2011 alone, 40 km of gravel roads were constructed and rehabilitated in the rural areas. Low water crossings were also constructed. Arterial roads around the CBD were resurfaced using the Small Town Rehabilitation Grant. Tarred roads in Ezakheni and Steadville to the amount of R27 million was constructed. The new Public Safety building as well as the testing station was completed. Streetlights were erected in Ezakheni and sidewalks were constructed using the Neighbourhood development grant. The kombi court in Ezakheni D section was completed using the Sports and Recreation grant. The sidewalks in the CBD were rehabilitated. The town entrances and the wimpy park was constructed using the small town rehabilitation grant. The construction of the community halls in Emschiteni and Watersmeet began.

Various electrification projects were undertaken in the 2011 year. Many households were electrified. Energy efficient lighting was undertaken in Ezakheni. Streetlights in Ezakheni were installed. Substations in Poort road, Settlers Park and Janta road were refurbished to increase the electricity supply.

Addressing the serious backlogs in providing adequate housing continues as a critical focus for our Municipality, which is addressed in conjunction with the Provincial Department of Housing. Numerous housing projects are in progress, 3 500 houses in the St Chads Housing project, 170 houses in Steadville Area E and in Ezakheni. Projects about to commence include 450 houses in Steadville Area H. Various rural housing projects are also being investigated. The Municipality has applied for emergency funding of R18 million to repair 600 houses damaged by the violent storms in the municipal area. The Mayor also embarked on a project to assist in the building of houses for the community in St Chads.

The Municipality is participating in a countrywide financial reform programme for Local Government. The spearhead of this programme is the Municipal Financial Management Act (MFMA), which aims to modernise financial management and place it on a sound footing to be able to deliver satisfactory services to its customers.

The object of the MFMA is to secure sound and sustainable management of the financial affairs of the Municipality through transparency, accountability, planning and appropriate allocation of responsibility. In accordance with the Act, the Municipality has placed considerable emphasis on improving reporting systems to management

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**PART 2 – Budget Commentary**

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and elected members. This is to ensure key stakeholders are adequately informed to be able to make the right decisions about the financial management of the Municipality.

The 2011/2012 Financial Statements have been completed and audited. The Municipality received an unqualified Audit Report from the Auditor-General.

Various Local Economic Development projects including the development of community gardens, aloe berg and tea projects, establishment of 5 egg-layer projects, establishment of 20 broiler projects have been established.

The Municipality has provided an additional testing centre and maintenance for the issuing of drivers licenses to accommodate the increased demand. The extension of the Lister Clarence Building is currently in progress, this will ensure that all services can be accessed at one focal point.

One of the key challenges for the future that the Municipality faces is increasing its payment levels. Almost 64% of the Municipality's budgeted revenue is from local rates and payments for services. Non-payment directly threatens the municipality's ability to deliver services to its residents in the future. With extensive indigency measures in place, service delivery is dependent on Council implementing the Credit Control Policy on those residents that can afford to pay. With the implementation of the Municipal Property Rates Act there is a change in the rates tariff structure in that only a randage will be levied against the market value of the property and no rebates will be granted.

Another critical challenge is providing adequate infrastructure and assets. As a Municipality we are exceedingly aware of the community's needs for new infrastructure such as roads, footbridges, street lighting, community sport grounds, halls, electrification of surrounding municipal areas and other facilities.

However with limited funds, and infrastructure growing each year, there is less money to spend on maintaining the roads, stormwater, streetlights, community facilities and assets such as Council's assets, road plant and other vehicles. Grant funds are provided to build the initial asset, but there are no ongoing grants for the maintenance of the assets. Where assets are inadequately maintained, they quickly deteriorate, and either become irreparable or very expensive to repair. Regular maintenance is the cheapest option.

Expanding service delivery infrastructure and maintaining existing assets remains one of our greatest challenges. There has been a provision made for the renewal of tarred roads within the municipal area of R20 million, as the current rate of deterioration of our roads are rapidly increasing.

## **PART 2 – Budget Commentary**

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### **Selected highlights from the operational budget and capital program**

Electricity infrastructure is receiving a much-needed boost with the provision of R 10 m for refurbishment. The electricity service has increased the collection of outstanding monies through the appointment of a contractor to perform the task of removing meters and disconnecting services for non-payment.

The hail storm that occurred has damaged various areas of Emnambithi / Ladysmith, emergency relief has been allocated R1.5m to assist our most needy in times of natural disaster, which often occurs, with the damage of houses in the stormy season.

The maintenance of the roads and the storm water drains will be an on-going process. Maintenance of the electricity reticulation will also be addressed through the upgrading of substations and electrical equipment.

The provision for bad debt has been increased to R9.18.6million for the 2012/2013 as the provision is made in line with the GRAP Accounting Standards.

The main focus for the capital budget is the provision of infrastructure in specific areas from grant funding and own revenue sources.

The total Capital budget for 2013/2014 is R94.5 million, some projects are as follow:

|                                                         |               |
|---------------------------------------------------------|---------------|
| ● Sports Field Roosboom                                 | R 3m          |
| ● Colenso Electricity Strengthening                     | R 7 m         |
| ● Swimming pool St. Chads                               | R3 m          |
| ● Sports Field Matiwane                                 | R3 m          |
| ● Mini Facility Drogval                                 | R750 thousand |
| ● Streetlights                                          | R1.5m         |
| ● Upgrading of Sports fields                            | R1.5m         |
| ● Community Hall ward 19                                | R 4m          |
| ● Mini Multipurpose Facility Mgazini                    | R750 thousand |
| ● Bulk Infrastructure Mgazini                           | R1 m          |
| ● Tarred Roads Area J                                   | R5 m          |
| ● Community Hall Area J                                 | R5 m          |
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| ● CBD Regeneration projects Planning and Implementation | R2 m          |
| ● Steadville Area H Intersection                        | R2.5m         |
| ● Electrification of 1010 sites                         | R10 m         |
| ● Ezakheni 642 schedule 6 electricity                   | R3.2 m        |
| ● Corporate Services                                    | R950 thousand |
| ● Public Safety                                         | R3.5m         |
| ● Engineering                                           | R1m           |
| ● Municipal Manager                                     | R5m           |
| ● Plant and Equipment                                   | R10 m         |

## PART 2 – Budget Commentary

The projects that could not be completed in the 2012/13 year will be rolled / carried over to the following year and that year's allocation will be utilised.

### CARRY OVER PROJECTS FROM 2012/13:

|                                        |               |
|----------------------------------------|---------------|
| ● Bridge Ezakheni E to C               | R7.6m         |
| ● Streetlights Mcitscheni and Zwelisha | R500 thousand |
| ● Streetlights Roosboom Phase 1 and 11 | R500 thousand |
| ● Streetlights Watersmeet              | R500 thousand |
| ● Streetlights Mthandi                 | R500 thousand |
| ● Swimming pool Colenso                | R1 m          |
| ● Overhead bridge Lyell Street (CBD)   | R4m           |
| ● Extension Lister Clarence Building   | R1m           |
| ● Ezakheni Emergency Centre            | R500 thousand |
| ● Parks Steadville / E Section         | R1 m          |
| ● Constituency Offices                 | R950 thousand |

Provision for capital in the outer years 2 and 3, is dependent on funding in each year in terms of grants and cash reserves.

### Supporting Documentation

Section 17(3) of the MFMA requires certain documents to accompany the budget. The table below lists the necessary requirements and where these are contained.

| Legislative Requirement                                                                                                                                                                           | Compliance Section                |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------|
| (a) Draft resolutions-                                                                                                                                                                            |                                   |
| (i) approving the budget of the municipality;                                                                                                                                                     | Section 3                         |
| (ii) imposing any municipal tax and setting any municipal tariffs as may be required for the budget year; and                                                                                     | Section 3                         |
| (iii) approving any other matter that may be <u>prescribed</u> ;                                                                                                                                  | Section 3                         |
| (b) measurable performance objectives for revenue from each source and for each vote in the budget, taking into account the municipality's integrated development plan;                           | Annexure 4<br>Supporting Table 10 |
| (c) a projection of cash flow for the budget year by revenue source, broken down per month;                                                                                                       | Annexure 4<br>Supporting Table 10 |
| (d) any proposed amendments to the municipality's integrated development plan following the annual review of the integrated development plan in terms of section 34 of the Municipal Systems Act; | Section 8                         |
| (e) any proposed amendments to the budget-related policies of the municipality;                                                                                                                   | Section 9                         |
| (f) particulars of the municipality's investments;                                                                                                                                                | Supporting Table 4a               |
| (g) any <u>prescribed</u> budget information on municipal entities under the sole or shared control of the municipality;                                                                          | Not Applicable                    |

Emnambithi/Ladysmith Municipality's  
2013/2014 Medium Term Budget

**PART 2 – Budget Commentary**

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|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------|
| (h) particulars of all proposed new municipal entities which the municipality intends to establish or in which the municipality intends to participate;                                                                       | Not Applicable                    |
| (i) particulars of any proposed service delivery agreements, including material amendments to existing service delivery agreements;                                                                                           | Not Applicable                    |
| (j) particulars of any proposed allocations or grants by the municipality to-                                                                                                                                                 |                                   |
| (i) other municipalities;                                                                                                                                                                                                     | Not Applicable                    |
| (ii) any municipal entities and other external mechanisms assisting the municipality in the exercise of its functions or powers;                                                                                              | Not Applicable                    |
| (iii) any other organs of state;                                                                                                                                                                                              | Not Applicable                    |
| (iv) any organisations or bodies referred to in section 67(1);                                                                                                                                                                | Section 12                        |
| (k) the proposed cost to the municipality for the budget year of the salary, allowances and benefits of-                                                                                                                      |                                   |
| (i) each political office-bearer of the municipality;                                                                                                                                                                         | Supporting Table 4a               |
| (ii) councillors of the municipality; and                                                                                                                                                                                     | Supporting Table 4a               |
| (iii) the municipal manager, the chief financial officer, each senior manager of the municipality and any other official of the municipality having a remuneration package greater than or equal to that of a senior manager; | Annexure 4<br>Supporting Table 4a |
| (l) the proposed cost for the budget year to a municipal entity under the sole or shared control of the municipality of the salary, allowances and benefits of-                                                               |                                   |
| (i) each member of the entity's board of directors; and                                                                                                                                                                       | Not Applicable                    |
| (ii) the chief executive officer and each senior manager of the entity; and                                                                                                                                                   | Not Applicable                    |
| (m) Any other supporting documentation as may be prescribed.                                                                                                                                                                  | Not Applicable                    |

#### 4. Budget Process Overview

##### Political oversight of the budget process

The MFMA allocates the Mayor and EXCO with the responsibility of ensuring the budget complies with applicable legislation and considers the needs of the community including:

- Providing political guidance over the budget process and the priorities that guide its preparation,
- Ensuring the budget is tabled and approved on time,
- Ensuring the Service Delivery and Budget Implementation Plan and Annual Performance Agreements are developed and approved, and
- Publicity and consultation on the budget is undertaken

##### Schedule of Key Deadlines relating to budget process [MFMA s 21(1) (b)]

Council adopted the Budget/IDP Time schedule in August 2012.

The timetable and process for tabling and approval of the budget is as follows:

Emnambithi/Ladysmith Municipality's  
2013/2014 Medium Term Budget

**PART 2 – Budget Commentary**

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| <b>ACTION</b>                                                                            | <b>WHO</b>                | <b>WHEN</b>          |
|------------------------------------------------------------------------------------------|---------------------------|----------------------|
| Budget Workshop(All Councillors)                                                         | EMF                       | 18/03/13<br>20/03/13 |
| Consider tabled Budget                                                                   | EXCO/Council              | 28/03/13             |
| Public advertisement, press release etc. to community advising of tabled Budget          | EMF                       | 03/04/13             |
| Budget Consultation                                                                      | EMF<br>/Mayor's<br>Office | April 2013           |
| Collate feedback from community                                                          | EMF/Mayor's<br>Office     | May 2013             |
| EXCO to consider budget and community feedback                                           | EXCO                      | 23 May 2013          |
| Council considers and adopts Budget and reviews draft SDBIP's and Performance Agreements | Council                   | 23 May2013           |

**Process used to integrate the review of the IDP & preparation of the budget**

The Time Schedule adopted by Council in August 2012 provides for an integrated Budget and IDP Preparation Process.

Additionally, the introduction of the Service Delivery and Budget Implementation Plans has enhanced matching of IDP priorities to the operational and capital budget, as well as setting performance targets for IDP objectives.

However, actual integration of the IDP and Budget process, including review by elected members and the community of the IDP strategies and priorities and translating these to the budget requires improvement, particularly in terms of capital programmes.

**Models used for prioritising resource allocation**

Community participation is an effective method of identifying priorities, but it is also critical to develop an IDP Prioritisation/Project Evaluation model for determining budget allocations. This model would take into account community needs, project profiles and assessment, available resources, strategic planning, national, provincial and local policy and good municipal management. Development and approval of Financial Planning and Annual IDP Review Guidelines will also assist this process.

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**PART 2 – Budget Commentary**

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**Consultation**

In accordance with the Municipal Systems Act and the Municipal Financial Management Act, consultation will be undertaken with the local community primarily through public meetings in all wards.

Copies of the draft budget will be provided to other levels of government for their comment.

**5. Alignment of Budget with Integrated Development Plan**

The IDP is undergoing review as required by the Municipal Systems Act and MFMA.

There is little change to the status quo and much of the information is deduced from the 2012 statistics. National Treasury has aligned the information obtained from the Statistics South Africa with that of the Equitable Share Grant that is given to municipalities.

Unlike the previous process, there has been consideration given to issues raised in Local Government Summits such as:

- Cooperative governance
- Women, youth, and disabled persons
- The role of infrastructure in poverty alleviation
- The relationship between Traditional Leadership and Municipalities

The above issues have been now identified in the IDP but still require further and serious attention.

The revised Spatial Development Framework has been incorporated and should serve as a vision for Council's development programme. The Economic, Tourism and Agricultural plans have also been incorporated in the IDP.

Implementation of the Performance Management System commenced in 2012 and significant progress has been made particularly with Performance Agreements for Senior Staff and Performance Management Framework adopted by Council.

There is now convergence and understanding from all role-players that the IDP should inform the budget process. The needs appearing on the IDP have been manipulated into programs that influence the division of the Capital Budget.

The budget will translate community inputs into a programme of action for the next three years. Therefore this budget should in essence address the following key priority issues as determined by the Community in the IDP:

- Roads
- Community Facilities
- Bridges
- Poverty Alleviation
- Storm Water
- Aesthetics
- Soil Erosion
- Electricity
- Unemployment
- Refuse Removal
- Community Safety
- Skills Development
- Information Signage
- Housing Projects

Council acknowledges that the IDP has guided the Budget Process.

It is important that plans are within the financial capacity of the Emnanbithi/Ladysmith. Supporting tables SA4 to SA6 **shows the high level link between the budget and the IDP.**

## **6 Budget Related Policies Overview and Amendments**

Listed below are the Municipality's budget related policies. These policies are available from the Municipality on request. Some policies including the Debt Collection, Credit Control and Customer Care, Municipal Property Rates Policy, Petty Cash Policy, Tariff policy, Supply Chain Management Policy, Cash Management and Investment Policy and the Inventory Policy are under review. Major changes will be highlighted and provided as part of the budget process.

### **Current Budget Related Policies**

- Accounting Policy
- Credit Control, Debt Collection and Customer Care Policy (including Indigent Policy)
- Investment Policy
- Supply Chain Management Policy
- Tariffs Policy
- Promotion, Recruitment and Selection Policy
- ABET Policy
- Workplace Policy on HIV/AIDS
- Workplace Policy on Substance Abuse
- Study Leave Policy
- Budget Policy
- Employee Assistance Program Policy

### **Employment Policies under development**

- Job Creation Policy

## **PART 2 – Budget Commentary**

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### **Policy Amendments**

The major changes to the attached policies are highlighted in the policies.

## **7 Budget Assumptions**

This section provides information on the assumptions used in preparing the budget. In most cases, the information is provided for the 2013/2014 budget year, and generally the same assumptions are being applied to the 2 projected outer years.

### **General inflation outlook and its impact on municipal activities**

The 2013 medium term outlook for the South African economy remains positive with the general inflation forecast advised by National Treasury projected at 5.6% for the three year forecast period.

In the 2012/2013 year the CPIX in January 2013 was at 5.4% as the prices of food and transport has reduced. Therefore the Municipal 2013/2014 tariff increases of 7.5% for refuse as the service is currently not cost reflective. The municipality is working towards ensuring that the service is able to fund itself. The implementation of the new general valuation roll will be effective from the 01 July 2013 for rates. The Valuation roll has been certified by the Municipal Valuer. There is approximately a 20% increase in the valuations of the properties. The increase for electricity tariffs is 10%, which is controlled by NERSA. This increase guideline has been released by National Treasury, the municipality is currently in the process of re-structuring the electricity tariffs. The municipality is adding on an additional 2% to the guidelines of 8% as the infrastructure is very ailing and is in dire need of refurbishment.

### **Credit rating outlook**

In September 2006, Emnambithi/Ladysmith Municipality was pleased to receive a long-term credit rating of BB+. Some of the findings of the credit rating included:

- A stable outlook rating and a short term rating of B;
- The municipality's debt burden is low at 2.5%.
- The debtor's collection rate for the 2012/2013 financial years is at 96%
- Our current municipal rating is BB+

### **Interest rates for borrowing and investment of funds**

When the Municipality last accessed loan funds in March 2008, it was able to access at an interest rate of 12.01 %. It is not expected that there will be a major variation on

## PART 2 – Budget Commentary

these rates if loan proposals are sought from the market. No loans will be taken in 2013/14 financial year.

### Rates, tariffs, charges and timing of revenue collection

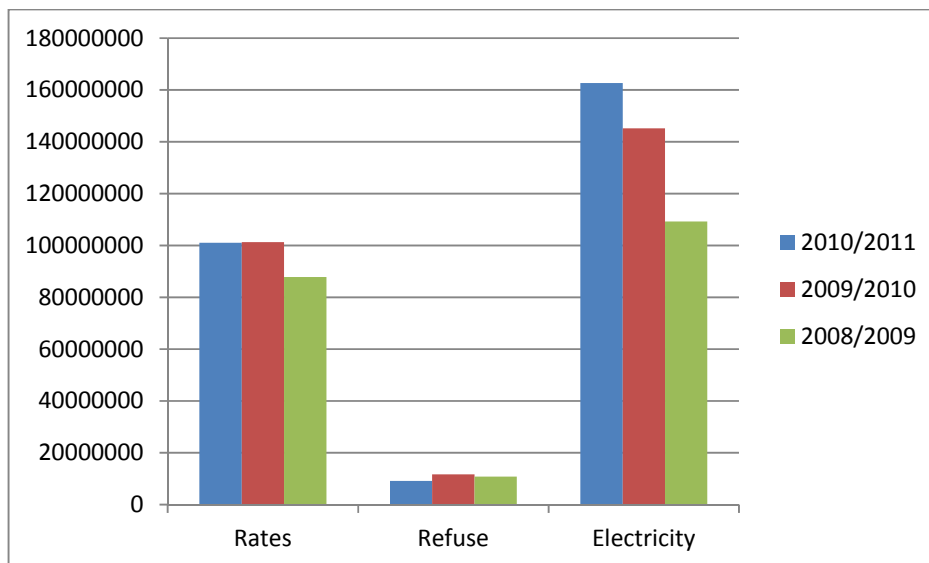
Accounts for rates, refuse and electricity are issued on a monthly basis and are due and payable within 30 days of issue. Recovery procedures for non-payment may be commenced within 1 day of payment default.

### Growth in tax base of the municipality

The rate base of the Emnambithi/Ladysmith has increased due to the implementation of the Property Rates Act. This incorporates the areas that were not rated previously.

### Collection rates for each revenue source

Listed below are collection rates for major revenue sources for the current and previous financial years.



As the graph indicates, there has been a slight improvement in the collection rates of the electricity and refuse services. The dedicated legal team and credit control section of the municipality has managed to increase the collection rate of the Rates service. However, diligent application of the Credit Control Policy in 2013/2014 is needed to improve this trend as well as collect the historical debt.

**Price movements on specifics e.g. bulk purchases of electricity, fuel etc.**

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**PART 2 – Budget Commentary**

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Eskom has announced an 8% increase, and this will be applied to the bulk purchase of electricity.

**Average salary increases**

A 7% salary increase for officials and 7% for councillors has been budgeted for. The period for the Salary and Wage Collective Agreement is 2012/2013 to 2014/2015. The 7% increase is in line with the demands of the unions.

**Industrial relations climate, reorganisation and capacity building**

The industrial relations climate in the Emnambithi/Ladysmith Municipality is sound, as most of the outstanding issues such as restructuring; the placement of staff and the job evaluation process have been completed. A good working relationship exists between management and unions.

Capacity building is undertaken through the Skills Development Plan, which is updated and submitted to all relevant parties on an annual basis. Employment Equity plans also makes provision for upward mobility as a means of capacity building.

**Indigency and free basic services**

Currently around 13000 poor households received a 100% relief on their rate accounts. In total, indigent households will receive an estimated R 21.7 million in financial relief. Indigency is available by application as well as to those properties that have a land and building value of R130 000 or less being automatic.

All indigent consumers receive free basic electricity in the amount of 50kWh per month and R 3.2 million has been budgeted for this in the 2012/2013 budget year. R 1.1million has been budgeted for free alternate energy which will be distributed to the communities that do not have access to the electricity network.

All indigent households currently receive a free refuse service, which is valued at around R6.3 million in the 2013/2014 financial year.

**Penalties and collection charges**

Penalties and collection charges have been reduced to R3 million, this resulting from the policy decision to not raise penalties and collection charges on hand over accounts or accounts that are 60 days and older. Accounts are now restricted in terms of the interested raised to be in line with the Induplume rule.

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**PART 2 – Budget Commentary**

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**Impact of national, provincial and local policies**

Strengthening the link between policy priorities and public expenditure is the core of medium term budgeting. Public expenditure translates policy priorities into delivery of services to our community and therefore is a key tool for accomplishing public goals.

One of the key national priorities is the improvement and accessibility of services to the community, which incorporates the need to create new and rehabilitate existing infrastructure. The provision of basic infrastructure to disadvantaged communities is needed.

It is important that within the Municipal budget, new proposals for both the operating and capital budget demonstrate a clear link between their expected outputs and key government objectives including national, provincial and local priorities.

Our IDP is aligned to the National Performance Areas and Objectives, the priorities arising from the recent community consultation are listed as part of the tabled capital budget.

**Sale of Electricity and Impact of Tariff Increases**

NERSA has announced the revised bulk electricity pricing structure. An 8 per cent increase in the Eskom bulk electricity tariff to municipalities will be effective from 1 July 2013.

Considering the Eskom increases, the consumer tariff had to be increased by 10 per cent to offset the additional bulk purchase cost from 1 July 2013. Furthermore, it should be noted that given the magnitude of the tariff increase, it is expected to depress growth in electricity consumption, which will have a negative impact on the municipality's revenue from electricity.

Registered indigents will again be granted 50 kWh per 30-day period free of charge.

It should further be noted that NERSA has advised that a stepped tariff structure needs to be implemented from 1 July 2011. The effect thereof will be that the higher the consumption, the higher the cost per kWh. The aim is to subsidise the lower consumption users (mostly the poor). The Municipality has entered into discussions with NERSA regarding the suitability of the NERSA proposed stepped tariffs compared to those already being implemented by the Municipality already. The municipality has appointed a consultant to restructure the electricity tariffs.

The inadequate electricity bulk capacity and the impact on service delivery and development remains a challenge for the municipality. Most of the suburbs and inner city reticulation network was designed or strengthened in the early 1980's with an expected 20-25 year life-expectancy. The upgrading of the municipality's electricity

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**PART 2 – Budget Commentary**

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network has therefore become a strategic priority, especially the substations and transmission lines.

The approved budget for the Electricity Division can only be utilised for certain committed upgrade projects and to strengthen critical infrastructure (e.g. substations without back-up supply). It is estimated that special funding for electricity bulk infrastructure to the amount of R400 million per year will be necessary to steer the municipality out of this predicament.

Owing to the high increases in Eskom's bulk tariffs, it is clearly not possible to fund these necessary upgrades through increases in the municipal electricity tariff – as the resultant tariff increases would be unaffordable for the consumers. As part of the 2013/14 medium-term capital programme, funding has been allocated to electricity infrastructure but these funding levels will require further investigation as part of the next budget cycle in an attempt to source more funding to ensure this risk is mitigated.

**Ability of the municipality to spend and deliver on its programmes**

A number of factors impact on the ability of service delivery departments to deliver on programmes. These issues and risks are mainly focused on the lack of adequate resources and planning and include:

Staffing – Skill Shortages

There is a shortage of skilled and experienced Technical Staff, as well as Artisans/Operators. When vacant posts are advertised, the experienced and skilled incumbents do not apply, as the salary scales in smaller towns are not attractive.

Staffing - Staff Shortages

Although the boundaries were increased with demarcation in 2000, additional staff was appointed. However, the area/boundaries have increased considerably and provision is needed in the budget to appoint appropriate incumbents.

Competing priorities within the organisation with skill and staff shortages can also severely affect the ability of the municipality to deliver, as is the case with too few electricians being available and required for both electrical functions, as well as providing credit control through disconnections.

To alleviate these problems, Council needs to consider implementing Learnerships as well as Contractor Development Programmes to enable and implement Capital and Maintenance Programmes, as skill levels in the community are limited.

## **PART 2 – Budget Commentary**

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### Plant and Equipment

The average age of the vehicles can be well over 10 years and the average age of heavy plant can be 20 years. There are constant breakdowns, which are affecting service delivery. Small equipment is old and needs to be replaced as the breakdowns also affect service delivery.

### Planning and Direction

Development of a fair and appropriate model for resource allocation and commitment to long term planning will improve the ability of the Municipality to delivery and sustain services and infrastructure. Clear and consistent policy from Council assists in speedy service delivery for the entire community.

### Legislation and Organisational Change

New Legislation has resulted in change of operational procedures and new processes have to be put in place. Due to vacuums that have been created as a result of new Legislation, staff morale is low, i.e. Job Evaluations, restructuring etc. The Municipal Property Rates Act has changed the structure of the rates tariff in that no rebates are allowed and the rates are now calculated on the market value of the property. The new general valuation roll will be effective on the 01 July 2013.

### Powers and Functions

Powers and Functions have caused some delays in finalizing issues as more than one organ of state is involved in approval.

## **Implications of restructuring and other major events into the future**

Council has implemented a new organisational structure of the municipality that has come into effect in August 2013, the budget has since then has been re-aligned to the new organisational structure.

## **8 Funding the Budget**

### **Fiscal Overview**

In the recent past, the Municipality experienced a period of extremely tight financial constraint. This was initially brought about by demarcation and incorporation, which increased municipal boundaries and responsibility. Although the Municipality was on

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**PART 2 – Budget Commentary**

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the brink of serious financial difficulty, the finances were carefully managed with close scrutiny on spending, minimal capital programmes and borrowing, and careful monitoring of cash flow.

This prudent management turned the precarious situation around, and in the 2005/06 Budget, the Municipality was able to embark on a capital programme accelerating service delivery using long term borrowing. Cash reserves have been used to fund the 2013/2014 capital programme and cash flow requires on-going careful monitoring. In 2005/2006, a loan of R6m was accessed to fund the refurbishment of the Taskane Substation. Cash resources are minimal due to the decline in the payment rates. In June 2013 one of the long term borrowings will be fully paid up, relieving the financial burden on the municipality.

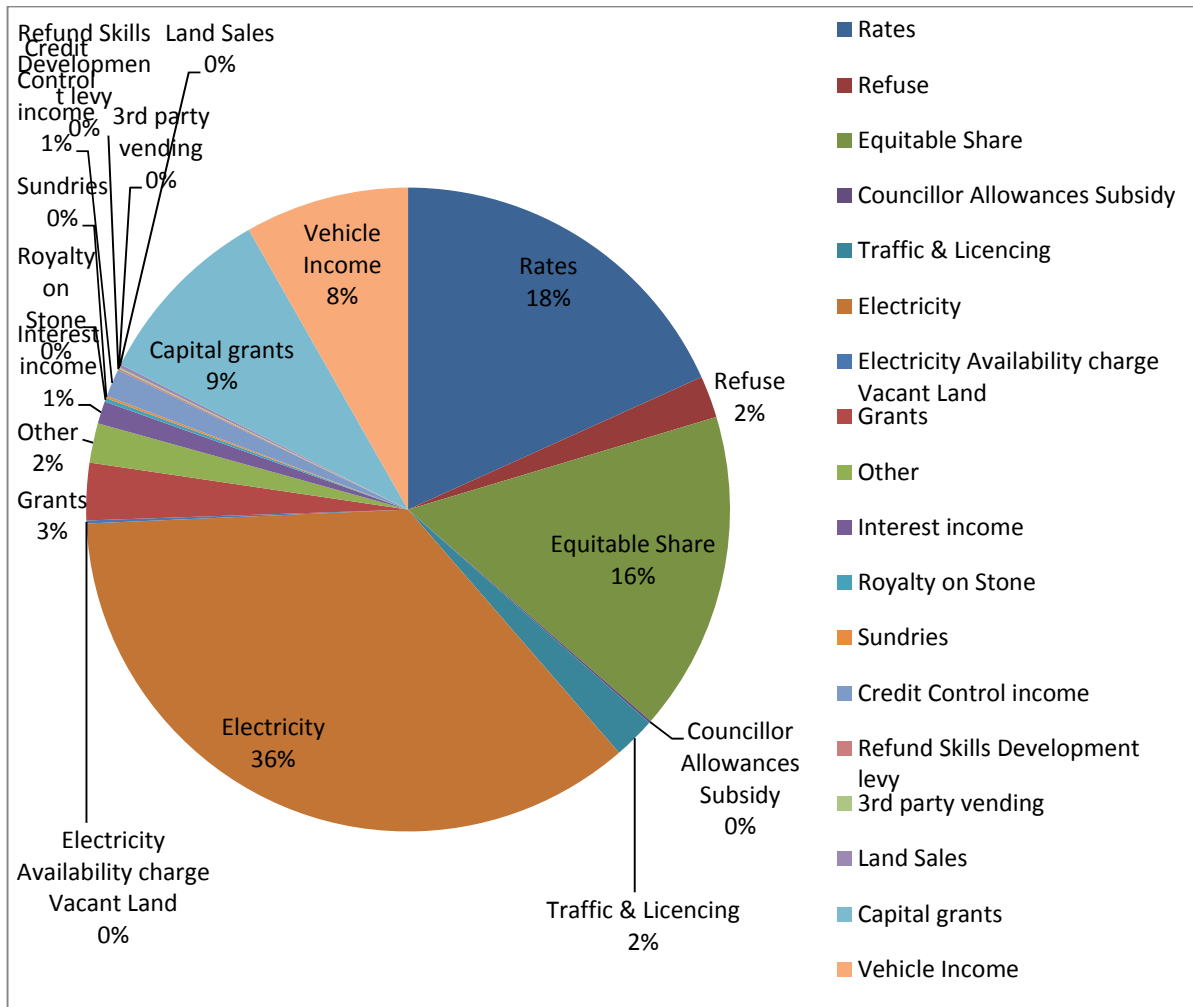
Financial Statements for 2011/2012 were prepared in terms of Generally Recognised Accounting Practice and an unqualified audit report has been received from the Auditor- General.

Financial Services has developed a 3-year financial model, which is submitted with the budget. This financial planning tool is used to model the impact of different tariff increases, the impact of varying salary increases, the impact of different levels of loan funding and other major budget variances. By using a 3-year timeframe, it is possible to assess the impact of decisions over time and assist decision makers to make budget decisions that are sustainable.

The Municipality is in a strong position in terms of generating its own revenue through rates and taxes and in year one of the tabled budget, 19 % of income is received from external sources as detailed in the graph below 'Sources of Revenue'.

Emnambithi/Ladysmith Municipality's  
2013/2014 Medium Term Budget

**PART 2 – Budget Commentary**



One of the challenges the Municipality faces is improving debt collection for those ratepayers who can afford to pay. As indicated in Section 10 of this document, average collection rates are around 96% and have slightly improved over the past 7 months. However, outstanding debt amounts to over R120 million and it is crucial that the credit control focus on the collectable debt and any uncollectable debt is written off.

R5million was written off in the 2011/2012 year.

It is important the Credit Control policy with regard to indigency is monitored and reviewed to ensure that the policy is fair, addresses the needs of the poor, and is efficient and cost effective to administer. It is also an important responsibility of the Council to ensure that the policy with regard to debt collection is applied fairly but rigorously so that those who can afford to pay do so.

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**PART 2 – Budget Commentary**

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Another major challenge the municipality faces is in terms of funding assets and equipment. There is insufficient funding allocated to maintenance and replacement of existing assets and plant. As a developmental municipality, we have a duty to provide new assets to those communities who are asset poor. However, financially we are struggling to maintain existing assets. Adding to the asset base further exacerbates the maintenance issue and it is not sustainable within current budgeting techniques.

In terms of the MFMA and GRAP, for a credible budget, all depreciation should be included as an expense to build funds for maintenance and replacement of assets. Although the R12.5 million provided for depreciation in the budget is a substantial increase over last year it is vital that we continue to progressively increase depreciation funding in the budget so that in the medium to long term, we are compliant with legislation and have provided for the maintenance and replacement of existing assets. A total of R54 million is the total amount that is included in the schedules to National Treasury. This is a non cash item, and therefore does not need to be funded. The depreciation provision has reduced from 2012/2013 as the actual depreciation for the 2011/2012 amounted to R53 million.

Another aspect of capital planning which needs to be improved is providing the full cost implications for capital projects including operating, staff, maintenance, and asset replacement costs. It is important that the Council know the full life cycle cost of an asset when budgeting for it, as it will have future budget implications and the project will impact on current and future tariffs. There has been a R20 million for the renewal of the tarred roads that will reduce the financial burden on ratepayers.

Much of the Municipality's plant fleet is old and spends more time in the workshop than in providing service delivery. Hire of heavy plant and maintenance and downtime of plant is a major cost. In recognition of this dilemma, significant funds have been directed towards plant and equipment purchases for the past two financial years. A medium to long-term plan for the replacement of plant and equipment needs to be developed and continued Council commitment to funding this plan is important to ensure wider and more efficient service delivery.

These issues can be addressed by moving toward a longer-term outlook for all planning including capital and asset planning. Deciding on capital projects just before the beginning of the financial year puts great risk on the ability of the service departments to complete all the necessary processes and finalise the project within any financial year. By committing to 3 -5 year capital plans, the Council improves the ability to deliver as lead times enable proper planning. Longer term planning also enables the Council to demonstrate to the community that while there are competing priorities with insufficient funds, their needs are being catered for in the medium term.

To expand and sustain services is also essential to limit staff costs and contain them within a reasonable percentage of the budget. New staffing must be assessed in the light of providing on the ground service delivery and current staff assessed as to how efficiencies can be gained. Developing and recruiting the right level of skills continues to be a challenging issue, with the implementation of the CPMD course, this gives employees the opportunity to have a vast knowledge of the Municipality.

**PART 2 – Budget Commentary**

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**Sources of Funding**

**Rates, tariffs and other charges**

Details of Rates tariffs are provided in the Rate Resolutions in Section 2 of this document. Details for Refuse tariffs for which the proposed increase is 7.5 % and for electricity charges, the proposed increase is 10% and the minor tariff and other charges are provided in the **Tariff Policy – Annexure 2**.

Below is the history of tariff increases and **increases** in major tariffs for 2013/2014

|                    | 2009/10 | 2010/11 | 2011/12 | 2012/13 | 2013/14                    |
|--------------------|---------|---------|---------|---------|----------------------------|
| Rates              | 0%      | 8%      | 0%      | 10%     | New General Valuation Roll |
| Electricity Tariff | 25%     | 18.03%  | 22.38   | 11.03%  | 10%                        |
| Refuse Tariff      | 8%      | 8%      | 10%     | 10%     | 7.5%                       |

The Municipality has adopted a **Tariff Policy** attached as **Annexure 2**, which provides for major services and lists minor services and tariffs.

The tariff increases are above the inflation rate as in the previous year's the increases were below the inflationary amount. To promote business activity in Ladysmith the rates randage was not increased in 2009/2010 and 2011/2012. In 2010/2011 the rates randage for the commercial sector was only increased by 5% as compared to the overall increase of 8%. In 2013/2014 rates randage has been reduced across all categories of properties.

As the municipality had minimal to no increase in the past 4 financial years, the need to increase the tariff above the inflation rate was considered.

Changes to minor tariffs are highlighted in bold in the attached document. Most minor tariffs have been increased in line with the global growth rate.

Debt Collection rates for the current and previous financial years are detailed in Section 10 with the average collection rate to January 2012 being 96% which is a decline over previous years. The Credit Control Section has implemented a 19-point arrears collection plan, which targets debtors for the best method of achieving collection. The Credit Control Section is assisted by the Legal Section in the collection of the outstanding debt. With full support for the Credit Control Policy and

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**PART 2 – Budget Commentary**

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implementation of the collection plan, it is anticipated the collection percentages could rise by 1-2% for the 2013/2014-budget year. Performance Indicators for each major tariff are provided in **Supporting Table SA 8**.

**Investments – cash backed accumulated surplus**

The Municipality's own funds currently are in the primary account of the Municipality and have not been invested as detailed in **Supporting Tables SA 16 and SA17**. The municipality has numerous call accounts for its grant funds and funds for specific projects such as the Valuations exercise and the cash backing of the depreciation to purchase new equipment or rehabilitate existing equipment.

The Municipality currently has R 102 million in reserves backed by investments, but in accordance with Generally Recognised Accounting Practice, and in an effort to address asset and equipment issues, the Capital Replacement Reserve has been opened in the 2008/2009 financial year.

Interest and the principal on all municipal borrowings are repaid at intervals determined in the loan agreement and included in the budget. Therefore sinking funds to repay the principal debt at the end of the loan period is not required.

Housing funds are held in trust on behalf of the Department of Housing and are separately invested.

**Grant allocations**

**Supporting Table SA 18** details gazetted grant allocations for 2009/2010, the current year, 2013/2014 and the outer 2 budget years.

Each of the grants provided by **National Government** is listed below with a brief description of the use of the grant and other relevant information.

1. The **Equitable Share** Grant is a non-conditional Grant which is used towards addressing service delivery backlogs and providing a 'social package' to the poor in terms of free basic electricity and refuse. A trial is also being undertaken for free alternative energy.
2. The **Financial Management** Grant is used to promote and support reforms to financial management and implementation of the MFMA. Primary areas of focus have been the employment of Financial Interns, systems improvement for legislative and Accounting Standard compliance, and addressing finance capacity issues through external staff training. It is planned to use all, retained and future FMG funds towards funding positions in the Finance Departments organogram in the medium term and developing Information Technology requirements, such as the Supply Chain Management Supplier Database. Reporting on expenditure is provided monthly to National Government within the required timeframe and in full compliance with DoRA.

## **PART 2 – Budget Commentary**

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3. The **Municipal Systems Improvement Programme** is used to ally some of the substantial costs involved in implementing the Municipal Property Rates Act.

4. The **Municipal Infrastructure Grant** supplements the Municipality's capital budget to eradicate backlogs in infrastructure. MIG projects are prioritised using the IDP and business plans submitted to DPLG for approval.

5. The **Integrated National Electrification Programme** provides capital funds to address the electrification backlog of permanently occupied residential dwellings, installation of bulk infrastructure and rehabilitation of infrastructure.

Listed below are grants received from **Provincial Government**:

1. Museum Services
2. Libraries
3. Provincialisation of Libraries

### **Sale of assets**

R1 million in revenue has been included in year one of the budget from sale of assets, which are land and property sales. It is important to recognise that this revenue is a once off, and cannot be relied on as a sustainable source of income. Accordingly, this revenue should not be used to fund recurrent expenditure such as organisational restructuring or on-going maintenance and expenses.

### **Borrowing**

**Supporting Table SA 17** provides details of borrowing in the previous and current years and projections for the 2013/2014 and the outer 2 budget years.

This borrowing programme is based around the projection of the 3 -Year Financial Model provided with the budget, which uses financial assumptions and trends to assist in estimating the levels of affordable capital programmes that may be provided over the next three years. Both interest and redemption are budgeted for in the model. Naturally if any assumptions in the model change, it will affect the overall picture.

Long-term borrowing will be undertaken for capital programmes only, and there is no anticipated need for short term borrowing as operational expenditure will be funded from revenue and cash.

## **9 Disclosure on Allocations Made by the Municipality**

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**PART 2 – Budget Commentary**

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An amount of R23 000 has been provided for Grant in Aid to Community Groups, Sporting Organisations and organisations assisting the poor. Actual allocations will be in accordance with Council's Grant in Aid Policy and community requests.

**10 Disclosure on Salaries, Allowances and Benefits**

Details of personnel and salaries allowances and benefits for Councillors and officials are provided in **Supporting Tables SA 22, 23, 24.**

**11 Monthly Cash Flows by Source**

Monthly Cash Flows are detailed in **Supporting Table SA 25.**

**12 Measurable Performance Objectives (Revenue Source and Vote)**

Annual measurable performance objectives for each revenue source and for by expenditure vote are provided for in **Supporting Table SA 7.**

Annual performance objectives will be converted into quarterly targets for the Service Delivery and Budget Implementation Plan (SDBIP).

Performance Management is a system intended to manage and monitor service delivery progress against the identified strategic objectives and priorities. In accordance with legislative requirements and good business practices as informed by the National Framework for Managing Programme Performance Information, the Emnambithi/Ladysmith Municipality has developed and implemented a performance management system. Performance agreements are signed by the Municipal Manager and the section 57 employees. There is a performance audit committee who evaluates their performance on a quarterly basis. Employees from level 1 to 6 are also evaluated on a quarterly basis in terms of their performance agreements.

**13 Disclosure on Implementation of MFMA & Other Legislation**

The Municipal Financial Management Act (MFMA) is the most major financial reform in South African Local Government history and forms part of a broader programme in local government reform which includes the Municipal Systems Act, the Municipal Structures Act and the Municipal Property Rates Act. Implementation of the MFMA is being rolled out, but as a high capacity Municipality, most of the provisions of the Act already apply to Emnambithi/Ladysmith.

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## **PART 2 – Budget Commentary**

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The Municipality applies monies from the Financial Management Grant towards implementation of the MFMA and capacity building. A MFMA Implementation Plan has been developed and progress is monitored.

The budget process is commenced early in the financial year and is required to be driven by the Mayor and EXCO. A key impact of the MFMA is to move away from a one-year budget to a three-year budget that is linked to the IDP. The budget should be forward looking and provide longer term capital planning to prioritise capital development and assist in addressing backlogs and service delivery in the community.

The MFMA requires that performance on budget delivery be monitored through the use of Service Delivery and Budget Implementation Plans for each municipal department. These were introduced in the 2005/06 Budget and will be further refined for this budget. The Municipal Performance Management System required in terms of the Municipal Systems Act including Performance Agreements for managers reporting to the Municipal Manager, has been developed and rolled out.

### **14 Budgets and SDBIPs – Departmental / Functional (Internal)**

The MFMA allocates responsibility for the implementation of the approved budget to the Municipal Manager (s 69), who must provide the Mayor with a draft Service Delivery and Budget Implementation Plan (SDBIP) within 14 days of the approval of the Budget.

In line with legislation, Emnambithi/Ladysmith will prepare departmental SDBIP's for the budget including capital programmes.

### **15 Summary of Detailed Capital Plans**

Indication of capital plans will be contained in the SDBIP when completed. The capital plans in the SDBIP where possible, provide detail regarding:

- Information by programme and municipal ward
- MIG sector priorities (refuse, electricity, roads, etc.)
- The source of the funding for the capital programme

**Supporting table SA 28** shows capital expenditure by municipal vote.

Some of the improvements still required in terms of capital budgeting include identifying the total cost of the capital programme, including such items as operating costs, full depreciation, and maintenance and repair. When identified there should be sufficient budget allocated to cover the costs and future financial and non-financial implications considered including the tariff implications. Approval of the capital budget for the medium term will also enable detailed capital works plans to be prepared which indicate delivery by ward over three years.

**PART 2 – Budget Commentary**

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**16 Budgeted Financial Statements**

Budgeted Financial Statements are required to be prepared according to the appropriate accounting standards. These are included in the schedules tabled.

A2 to A4

**17 Contracts having future budgetary implications**

In terms of the Emnambithi/Ladysmith Municipality's Supply Chain Management Policy, no contracts are awarded beyond the medium-term revenue and expenditure framework (three years). In ensuring adherence to this contractual time frame limitation, all reports submitted to either the Bid Evaluation and Adjudication Committees must report on the budget availability and sources of funding.